

Section I
Independent Auditors' Report



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**Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting
Based upon the Audit Performed in Accordance with *Government Auditing Standards***

Mr. Martin Benison, Comptroller
The Commonwealth of Massachusetts

We have audited the basic financial statements of the Commonwealth of Massachusetts as of and for the year ended June 30, 2003 and have issued our report thereon dated December 31, 2003. We have also audited the combined financial statements-statutory basis of the Commonwealth of Massachusetts as of and for the year ended June 30, 2003 and have issued our report thereon dated October 24, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commonwealth of Massachusetts' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, applicable to the Commonwealth of Massachusetts for those matters relating to the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts included within the scope of our audit, as described in our reports referred to above, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Accordingly our testing of compliance did not extend to tests of compliance with laws, regulations, contracts and grants for the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts whose financial statements were audited by other auditors. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Commonwealth of Massachusetts' internal control over financial reporting, applicable to the internal control over financial reporting relating to the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts included within the scope of our audit as described in our reports referred to above, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation relating to the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts whose financial statements included within the scope of our audit that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over financial reporting that, in our opinion, could adversely affect the Commonwealth's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs as Findings Number 6 and 15.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of management, the Honorable Members of the General Court and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

October 24, 2003

Independent Auditors' Report on Compliance and Internal Control Over Compliance Applicable to Each Major Federal Award Program and on the Schedule of Expenditures of Federal Awards

Mr. Martin Benison, Comptroller
The Commonwealth of Massachusetts

Compliance

We have audited the compliance of the Commonwealth of Massachusetts, for only those matters relating to compliance of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts included within the scope of our audit as described in our report on the basic financial statements dated December 31, 2003, and as further described in Note 2 to the Schedule of Expenditures of Federal Awards, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major programs for the year ended June 30, 2003. The Commonwealth of Massachusetts' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the management of the Commonwealth of Massachusetts. Our responsibility is to express an opinion on the Commonwealth of Massachusetts' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commonwealth of Massachusetts' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commonwealth of Massachusetts' compliance with those requirements.

As described in Finding Number 28 in the accompanying Schedule of Findings and Questioned Costs, the Executive Office of Public Safety/Committee on Criminal Justice, did not comply with the requirements regarding Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Equipment and Real Property Management, Matching, Level of Effort, Earmarking, Period of Availability of Federal Funds, Procurement and Suspension and Debarment, Reporting, and Subrecipient Monitoring that are applicable to its Byrne Formula Grant Program. Compliance with such requirements is necessary, in our opinion, for the Executive Office of Public Safety/Committee on Criminal Justice to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the portion of the Commonwealth of Massachusetts included within the scope of our audit, complied in all material respects, with the requirements referred to above that are applicable to each of its major programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in Part III of the accompanying Schedule of Findings and Questioned Costs which is listed as Section II in the table of contents and Section V as listed in the table of contents.

Internal Control Over Compliance

The management of the Commonwealth of Massachusetts is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Commonwealth of Massachusetts' internal control over compliance with requirements that could have a direct and material effect on a major federal program, applicable only to the internal control over compliance relating to the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts included within the scope of our audit as described in our report on the basic financial statements dated December 31, 2003, in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Commonwealth of Massachusetts' ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in Part III of the accompanying Schedule of Findings and Questioned Costs as Finding Numbers 31, 32, 54, 63 and 67.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, based on our procedures and the report of other auditors, of the reportable conditions described in Part III of the accompanying Schedule of Findings and Questioned Costs, we consider Finding Number 28 to be a material weakness relating to the controls over the Byrne Formula Grant Program administered by the Executive Office of Public Safety/Committee on Criminal Justice.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Commonwealth of Massachusetts as of and for the year ended June 30, 2003, and have issued our report thereon dated December 31, 2003. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

This report is intended for the information of management, the Honorable Members of the General Court and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

December 31, 2003



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